If the applicant pool does increase dramatically, the level of evaluation that occurs before an award is made may diminish. The National Institute of Standards and Technology, which runs ATP, faces an increase in its evaluation responsibilities with any expansion in the program. That increase is in addition to the institute's new responsibility for helping the Advanced Research Projects Agency within the Department of Defense oversee defense conversion projects (under the Technology Reinvestment Project).

Opponents of the ATP further question whether the federal government is capable of picking projects with the most potential for technological and commercial success. Furthermore, those projects that stand out as clear "winners" might have been funded by the private sector in any case. One privately funded study of the 11 projects supported by the first competition in 1990 suggests that as many as half of them would probably have been undertaken even without ATP support, although at a lower level of funding.

Proponents of the program maintain that firms do not invest enough in research on generic technologies because they cannot fully appropriate the benefits for themselves. (For example, generic technologies are likely to have applications to products developed later by firms that did not invest in the original research.) Because the incentive for firms to invest in this type of research is weak, say these advocates, producing less investment than is socially optimal, government support is desirable. In addition, the program's supporters cite evidence suggesting that the ATP encourages the formation of joint ventures, which increases cooperation among firms and between firms and academic institutions.

DOM-23 REDUCE FEDERAL AID FOR MASS TRANSIT

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
From the 1995 Funding Level						
Budget Authority[a]	2,118	2,877	2,940	3,006	3,073	14,015
Outlays	475	920	1,349	1,640	1,912	6,296
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority[a]	2,154	2,951	3,054	3,161	3,272	14,592
Outlays	490	962	1,436	1,788	2,132	6,808

a. Budget authority includes mandatory contract authority specified in law.

In 1995, the principal federal transit assistance programs will provide about $3.7 billion in capital grants and about $8 billion in operating assistance to local mass transit agencies. Federal grants generally pay 80 percent of the costs of qualifying capital projects and offset up to 50 percent of local transit system operating deficits. In 1990, federal capital grants accounted for about 60 percent of all public capital spending for mass transit, and federal operating subsidies offset roughly 5 percent of the operating costs of transit systems nationwide (and about 9 percent of the systems' operating deficits). Reducing the federal share of qualifying investment costs for mass transit to 50 percent (and reducing funding by a corresponding amount) and eliminating operating assistance would save $475 million in 1996 and $6.3 billion over the 1996-2000 period measured from the 1995 funding level. Measured from the 1995 level adjusted for inflation, savings would be $490 million in 1996 and $6.8 billion over the five-year period.

The large federal shares of investment spending and the subsidies for operating assistance appear to have had little effect on either transit productivity or the use of mass transit services. Despite modernization of transit systems, only 6.5 percent of journeys to or from work are made by mass transit. Transit agencies serve mainly downtown areas, whereas most of the growth in urban travel has been in the suburbs. At the same time, inflation-adjusted labor costs per mile of transit travel rose by 60 percent during the 1970s, when overall assistance levels were highest. Reducing the federal share of capital costs for mass transit might improve local investment choices, as a similar reduction seems to have done in the case of federal subsidies for construction of local wastewater treatment plants. Similarly, ending operating assistance could encourage local authorities to make better use of existing capital by improving services, using more cost-effective, smaller vehicles, or taking other steps to lower the operating costs of transit services.

Reducing federal transit subsidies, however, could harm some local transit services. The burden of diminished services would be borne disproportionately by people who are especially dependent on public transportation: the poor, the young, the elderly, and the disabled. Moreover, any reduction in transit service would occur just as the Clean Air Act of 1990 and the Intermodal Surface Transportation Efficiency Act of 1991 are placing increased pressure on states and localities to reduce their reliance on automotive transportation. Finally, an across-the-board cut in transit subsidies would be less efficient than targeted reductions, since certain transit investments, such as the rehabilitation of rail transit in older cities, could have a higher payoff.

DOM-24 ELIMINATE AIRPORT GRANTS-IN-AID

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
From the 1995 Funding Level						
Budget Authority[a]	2,214	2,289	2,369	2,452	2,538	11,862
Outlays	261	870	1,174	1,320	1,392	5,017
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority[a]	2,214	2,289	2,369	2,452	2,538	11,862
Outlays	270	908	1,254	1,447	1,572	5,451

a. Budget authority is mandatory contract authority specified in law.

Each year, the Federal Aviation Administration (FAA) provides airports with grants for expanding capacity and improving terminals. About half of the grant money is apportioned by formula. The other half is considered discretionary, although the Congress has imposed some restrictions on its allocation. Over the past decade, about two-thirds of the funding has gone to primary, commercial service airports; about one-quarter has gone to general aviation and reliever airports; and the rest has been divided among other special programs. Eliminating those grants would result in savings of $261 million in 1996 and about $5.0 billion over the 1996-2000 period measured from the 1995 funding level. Measured from the 1995 level adjusted for inflation, savings would be $270 million in 1996 and $5.5 billion over the five-year period.

Recent trends in aviation have increased the importance of larger airports (as measured by the number of embarking passengers). Those airports would have little trouble financing capital improvements from the fees collected or additional bonds issued if airport grants were eliminated. In 1991, the Congress passed legislation allowing airports to levy passenger facility charges (up to $3 per passenger). Those charges can supplement the revenues received from concessionaire rents, landing fees, and airline lease payments and, unlike federal grants, can be used to pay the interest on bonds issued by the airport. Passenger facility charges alone could bring in total annual revenues of about $1 billion to the 30 busiest airports. That revenue could be leveraged to support over $12 billion in borrowing.

Small reliever airports, financed by the FAA in the expectation that they would draw general aviation aircraft away from major airports, have not done so. Thus, some critics would argue against federal subsidies to those airports.

Supporters of the current program argue that the benefits provided by the system of airports are nationwide in scope. They also argue that more assistance is needed to overcome airport congestion and to allow airports to construct new gates and terminals that will promote competition among airlines, with benefits accruing to passengers.

DOM-25 ELIMINATE THE ESSENTIAL AIR SERVICE PROGRAM

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
From the 1995 Funding Level						
Budget Authority[a]	39	39	39	40	41	198
Outlays	27	33	33	33	33	159
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority[a]	39	39	39	40	41	198
Outlays	28	35	37	38	39	177

a. Budget authority is mandatory contract authority specified in law.

The Essential Air Service (EAS) program was created by the Airline Deregulation Act of 1978 to continue air service to communities that had received federally mandated air service prior to deregulation. The program provides subsidies to air carriers serving small communities that meet certain criteria. Subsidies currently support air service to 82 communities, with about 700,000 passengers served annually. The subsidy per passenger ranges from $5 to nearly $320. The Congress has directed that such subsidies not exceed $200 unless the community is more than 210 miles from the nearest large or medium-size hub airport. (Separate rules apply to Alaska.)

Program outlays for 1994 were $32 million. If the program was eliminated, budgetary savings would be $27 million in 1996 and $159 million over the 1996-2000 period measured against the 1995 funding level, and $28 million in 1996 and $177 million over the 1996-2000 period measured against the 1995 level adjusted for inflation. To mitigate disruptions from eliminating the program, it could be phased out over several years. Total budgetary savings would depend on the speed of the phaseout.

Critics of the EAS program contend that the subsidies are excessive, providing air transportation at a high cost per passenger. They also state that the program was intended to be transitional and that the time has come to phase it out. Air transportation to small communities is not a vital part of the national transportation system. If states or communities derive benefits from such airline service, they could provide subsidies themselves.

Supporters of the subsidy program claim that it is necessary to prevent the isolation of rural communities that would not otherwise receive air service. The availability of airline transportation is an important ingredient in the economic development of small communities. Without continued air service, some towns might lose a sizable portion of their economic base.

DOM-26 ABOLISH THE INTERSTATE COMMERCE COMMISSION

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
From the 1995 Funding Level						
Budget Authority	6	9	9	9	9	42
Outlays	5	9	9	9	9	41
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority	6	10	11	11	11	49
Outlays	5	10	11	11	11	48

The Interstate Commerce Commission (ICC) regulates rates, operating rights, and mergers and acquisitions of interstate motor carriers and railroads. It also rules on rail abandonments and construction of new rail lines. The ICC's powers diminished after 1980, when the Motor Carrier Act and the Staggers Rail Act were passed, and its staff and budget decreased accordingly. But the vestiges of regulation remained, including a large number of routine applications for ICC approval of operating rights, rates, and other business decisions.

Last year, the Congress passed the Trucking Industry Regulatory Reform Act of 1994, which eliminates most tariff-filing requirements for motor carriers and relaxes standards for entry into the industry. The ICC's appropriation was reduced from nearly $45 million in 1994 to $30 million in 1995. The Congress also directed the ICC to review its statutory and regulatory responsibilities and to make recommendations for further reform. The ICC's report of its review recommends further reduction of motor carrier regulation but retention of most rail regulation.

Budgetary savings could be achieved by eliminating all remaining ICC regulation of motor carriers and transferring the ICC's current responsibilities for motor carrier safety to the Department of Transportation (DOT). Rail regulation could also be transferred to DOT. Those measures could save an estimated $5 million in 1996 and $41 million between 1996 and 2000 measured from the 1995 funding level. Measured from the 1995 level adjusted for inflation, savings would be $5 million in 1996 and $48 million over the five-year period.

Proponents of transferring the ICC's remaining regulatory responsibilities to DOT argue that consolidating functions eliminates duplication of overhead expenses. It would also ensure conformity in safety and insurance regulation by housing oversight of all motor carriers in the same agency.

Opponents of transferring the ICC's responsibilities to DOT express several concerns. They worry that rail regulation would no longer be independent from the executive branch and would thus be more susceptible to political pressures. That problem could be mitigated by establishing an independent entity within DOT whose decisions about rail rates, routes, abandonments, and other economic issues would be insulated from the political process. Opponents also question the extent of the savings available if only the organizational structure is changed and not the underlying regulatory functions. Some express concern that a large organization like DOT might be more bureaucratic and less efficient than the ICC.

DOM-27 ELIMINATE FUNDING FOR HIGHWAY DEMONSTRATION PROJECTS

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
From the 1995 Funding Level						
Budget Authority[a]	1,250	1,461	1,499	1,540	1,581	7,331
Outlays	94	436	675	855	1,004	3,063
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority[a]	1,262	1,485	1,536	1,591	1,646	7,519
Outlays	96	446	695	887	1,049	3,173

a. Budget authority includes mandatory contract authority specified in law.

For this option, the Congressional Budget Office assumes that the federal government will provide a total of $104.1 billion in contract authority for the Federal-Aid Highways Program during the 1996-2000 period. The states will obligate most of that money on highway projects of their own choosing. The Department of Transportation will distribute about $98.5 billion, or 95 percent of the total, according to broad statutory formulas and other procedures prescribed by law. The remaining $5.6 billion will be obligated for projects earmarked by the Congress in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). (ISTEA contains more than 500 separate projects.) In addition, the federal government will provide through the Federal Highway Administration $1.9 billion for various surface transportation demonstration projects during the five-year period. If the Congress amended ISTEA to eliminate contract authority for the demonstration projects contained in the bill and stopped funding surface transportation demonstration projects, it would lower the amount of budget authority by $7.3 billion and the amount of outlays by $3.1 billion over the 1996-2000 period measured from the 1995 funding level. Measured from the 1995 level adjusted for inflation, budget authority would be reduced by $7.5 billion, and outlays would be reduced by $3.2 billion over the five-year period.

Critics argue that, in many instances, demonstration projects cannot be justified by economic criteria. For example, a survey of demonstration projects authorized in the 1987 surface transportation bill found that about half of those projects did not appear in state transportation plans. More than 10 percent of the projects would not have qualified for funding under the regular highway grant programs. Funding for demonstration projects therefore encourages construction that neither state transportation officials nor the broader federal highway program regard as being of primary importance.

Those who favor demonstration projects argue that the projects reflect important needs that are not addressed sufficiently by the regular process of highway funding. For example, demonstration projects can provide economic aid for particular geographic regions or fund construction that involves costs or risks that are too great for individual states. Thus, ISTEA provides funding for projects that are intended, among other things, to accelerate the construction of high-cost bridges, demonstrate innovative techniques for highway construction and finance, and improve methods to relieve congestion. Formal studies of the benefits expected from individual projects, however, are rarely available, making it difficult to assess whether demonstration projects achieve their intended purposes.

DOM-28 ELIMINATE THE OPERATING SUBSIDY FOR AMTRAK

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
From the 1995 Funding Level						
Budget Authority	392	392	392	392	392	1,960
Outlays	392	392	392	392	392	1,960
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority	405	419	433	449	464	2,170
Outlays	405	419	433	449	464	2,170

The federal government provides the National Railroad Passenger Corporation (also known as Amtrak) with subsidies of about $392 million a year for operating expenses, in addition to $150 million for mandatory passenger rail service payments, $230 million in capital grants, and $200 million for the Northeast Corridor Improvement Program. Eliminating the operating subsidy could result in savings of $392 million in 1996 and $2.0 billion over the 1996-2000 period measured from the 1995 funding level. Measured from the 1995 level adjusted for inflation, savings would be $405 million in 1996 and $2.2 billion over the five-year period.

When the Congress established Amtrak in 1970, it expected to provide subsidies only for a limited time, until Amtrak could become self-supporting. Instead of declining, however, federal subsidies rose steadily in the 1970s, to nearly $1 billion in 1981. The Administration then proposed substantial cuts in federal funding. Amtrak subsequently raised fares and reduced costs, and subsidies have declined. Eliminating the operating subsidy would force Amtrak to intensify its efforts to cut costs and expand revenues.

Proponents of cutting subsidies argue that passenger rail service should compete on a level playing field with other modes of transportation--without the advantage of federal subsidies. Rail service in that case would have to become more efficient. Proponents also question the fairness of subsidizing the travel of business people, who make up a substantial share of Amtrak's passengers.

Opponents of cutting subsidies say that reducing federal support would lead Amtrak to cancel service on lightly traveled routes and that passengers in those areas might not have alternative transportation available. They also note that subsidizing rail service in congested areas may be justified as a way of offsetting the costs of congestion in travel by highway or air. Retaining federal subsidies for the Northeast Corridor Improvement Program may help to redress that imbalance. Finally, some Amtrak supporters claim that in the absence of operating subsidies, the entire system would have to shut down. If bankruptcy occurred, it is unclear what role the federal government would play in paying off Amtrak's liabilities, such as labor protection payments. In addition, because Amtrak contributes to the Railroad Retirement system, bankruptcy could hamper payments to current retirees. The estimates provided for this option do not include any potential impact for associated labor costs.

DOM-29 ELIMINATE THE LOCAL RAIL FREIGHT ASSISTANCE PROGRAM

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
From the 1995 Funding Level						
Budget Authority	17	17	17	17	17	85
Outlays	7	14	17	17	17	71
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority	18	18	19	19	20	94
Outlays	7	14	18	19	20	78

Under the Local Rail Freight Assistance program, the Federal Railroad Administration provides grants to states for the rehabilitation of light-density tracks that are owned and operated by small railroads. Eliminating the program could save an estimated $7 million in 1996 and $71 million from 1996 through 2000 measured from the 1995 funding level, and an estimated $7 million in 1996 and $78 million over the five-year period measured from the 1995 funding level adjusted for inflation.

The rail lines receiving assistance generally serve small communities and act as feeders to major railroads. In many cases, the lines were once owned by large railroads, which sold them to smaller carriers because they were no longer profitable to the larger systems. On many occasions those sales occurred in part because of poor track conditions; rehabilitating the track would have cost more than it was worth to the major railroads.

Small railroads have been successful where larger railroads have not because the former usually have lower labor costs and greater flexibility to respond to the needs of shippers. The cost of rehabilitating track or of operating on poor-quality track, however, may make rail operations infeasible without subsidization.

Local rail freight assistance has not been included in the President's budget request since 1983, but the Congress has continued each year to fund the program. Opponents of the assistance argue that it is a low priority because the lines in question are not an important link in the national transportation system. They suggest that because most of the benefits accrue at the local or state level, any subsidies to be provided should come from state or local governments, not the federal government. At most, they might advocate the federal government's establishing a loan program, if it was shown that access to capital was limited as a result of market failures.

Supporters of the program claim that continued rail service to small communities provides substantial benefits. The fact that states, localities, and railroads provide matching funds indicates that they find the track improvement projects valuable. All projects are subject to benefit-cost analysis, and the relatively small amount of federal funding ensures that only the most worthwhile projects are undertaken.

DOM-30 ELIMINATE NASA'S SUPPORT FOR PRODUCERS OF COMMERCIAL AIRLINERS

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
From the 1995 Funding Level						
Budget Authority	347	347	347	347	347	1,736
Outlays	184	323	347	347	347	1,548
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority	359	371	384	397	411	1,921
Outlays	190	340	377	390	404	1,700

The National Aeronautics and Space Administration (NASA) funds the development of technology and systems intended for use in commercial airliners--both subsonic and supersonic--with the explicit objective of preserving the U.S. share of the current and future world airliner market. Eliminating NASA's Advanced Subsonic Technology and High-Speed Research programs would reduce outlays by $184 million in 1996 and $1.5 billion from 1996 through 2000 measured against the 1995 funding level. Measured against the 1995 level adjusted for inflation, outlays would be reduced by $190 million in 1996 and $1.7 billion from 1996 through 2000.

The large commercial aircraft industry is among the nation's most significant when measured by value of shipments, employment, or export sales. It has also been more profitable than the average manufacturing industry over the past several years. Two U.S. firms, Boeing and McDonnell Douglas, account for all of the nation's final sales of large commercial aircraft, but many other aerospace and nonaerospace businesses supply components to those firms. Along with the European-based Airbus Industrie, the two U.S. producers dominate the world market for large commercial aircraft (although McDonnell Douglas's share is significantly smaller and its profits lower than Boeing's).

NASA holds that the federal support offered in its Advanced Subsonic Technology Program--$125 million in 1995--is necessary to maintain the current U.S. share of the global market for subsonic aircraft. Among the key elements of the program are the testing of improved electronic controls and components under actual flight conditions and the developing and testing of new technologies that will allow the continued operation of aging jet aircraft. The High-Speed Research effort funded at $220 million in 1995 is a second conduit of support for the producers of commercial airliners. The program has two phases. Phase I is devoted to developing technologies that mitigate the atmospheric and noise effects of supersonic flight. Phase II, a cooperative venture with U.S. industry, is devoted to "high-leverage" technologies necessary for the economic viability of future supersonic commercial jet airplanes. NASA justifies the supersonic part of its aeronautical research and technology program the same way it justifies the program's subsonic component: the agency needs to support U.S. businesses that produce large commercial aircraft for the world market.

The case for eliminating federal support to U.S. producers of commercial airliners rests on the notion that the applied and systems-oriented research and development (R&D) necessary to maintain the U.S. market share is a private rather than a public responsibility. The owners and employees of aircraft companies benefit from success in the world market; accordingly, they should shoulder the burden of paying for the R&D necessary to produce better aircraft. The fact that the investments needed to develop, produce, and market a new commercial aircraft are very

large--$8 billion to $10 billion by some estimates--and the development of new aircraft requires many years should have little bearing on whether the public or private sector pays the cost of producing the necessary technologies.

Although a case can be made for federal support of R&D that ultimately benefits private businesses and is consistent with an economically efficient allocation of resources, it applies only weakly, or not at all, to the production of large aircraft. The benefits from the R&D supported by the NASA programs in question fall almost exclusively to aircraft manufacturers, their suppliers, and airlines. Left to their own devices, those parties should spend enough on the type of R&D supported by the NASA programs to leave society and themselves in the best position possible. Moreover, the type of research that is likely to be underfunded from society's point of view is supported by other NASA spending on aeronautical research and technology--$530 million in 1995.

The case for continued support of these programs is based largely on the unique competitive features of the market for large commercial aircraft. The United States and the European Union are parties to a bilateral agreement permitting public support for the development of commercial airliners. If the federal government failed to grant U.S. producers support comparable to that being provided by the governments of European competitors, opponents of this option would argue that U.S. producers would find themselves at a severe disadvantage in the global market.

A second argument for continuing NASA's expenditures on these programs is that limitations on noise levels and atmospheric pollutants impose an unfunded federal mandate on aircraft producers and airlines. Federal funds spent for research on noise and pollution abatement, as opposed to spending directed toward enhancing the economic viability of commercial aircraft, might be justified on the grounds that those funds cover a cost imposed on the industry by federal law. The force of that argument is diminished, however, to the extent that noise or atmospheric pollutants generated by jet air travel are unpaid "costs" that air travelers impose on the public at large. From that point of view, it is appropriate that aircraft producers, airlines, and, ultimately, air travelers pay the full social cost of their activities--including the cost of R&D that is directly applied to current and future jet aircraft.

DOM-31 ELIMINATE CERTAIN RURAL DEVELOPMENT PROGRAMS

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
Eliminate Direct Loans and Loan Guarantees						
From the 1995 Funding Level						
Budget Authority	202	202	202	202	202	1,010
Outlays	13	55	114	154	185	521
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority	209	216	224	231	240	1,120
Outlays	13	57	121	166	203	560
Eliminate Grants						
From the 1995 Funding Level						
Budget Authority	561	561	561	561	561	2,805
Outlays	20	120	270	411	501	1,322
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority	580	600	621	642	665	3,108
Outlays	21	125	284	440	548	1,418

NOTES: Programs include direct loans for rural development; direct loans and loan guarantees for water and waste disposal and for community facilities; loan guarantees for business and industry; and grants for water and waste disposal, rural development, fire protection, and solid waste management.

The figures in the table exclude savings in administrative costs.

The Department of Agriculture assists rural communities through a variety of programs, formerly administered by the Rural Development Administration (RDA). With the enactment of the Department of Agriculture Reorganization Act of 1994, the RDA has transferred its functions to the Rural Housing and Community Development Service, the Rural Utilities Service, and the Rural Business and Cooperative Development Service. In general, the programs provide loans, loan guarantees, and grants for rural water and waste disposal projects, community facilities, rural development, and fire protection. Funds are generally allocated among the states based on rural population and the number of rural families with income below the poverty threshold. Within each state, funds are awarded competitively to eligible applicants, including state and local agencies, nonprofit entities, and (in the case of loan guarantees for business and industry) for-profit organizations.

The amount of interest that loan applicants pay varies with the type of aid they receive and, in some programs, with the economic condition of the area. For example, for rural water and waste disposal loans, interest rates can range from 4.5 percent to market rates, depending on the median family income in the service area. If repayment of a loan would impose an undue financial burden on the residents of relatively poor areas, those areas may receive grants instead.

For 1995, the Congress appropriated $202 million in budget authority to support the costs of nearly $2 billion in combined direct loans and loan guarantees. Under credit reform, those costs include the present value of interest subsidies and the cost of loans that go into default. In addition, the Congress appropriated $561 million for grants, of which $500 million is for water and waste disposal. Eliminating the loan programs would reduce federal outlays for subsidizing direct loans and loan guarantees by $521 million over the 1996-2000 period measured from the 1995 funding level. Measured from the 1995 level adjusted for inflation, savings would be $560 million over the same period. Additional savings would be realized gradually as the costs of administering a shrinking portfolio decreased. Measured from the 1995 funding level, savings in outlays from eliminating grants would total about $1.3 billion from 1996 through 2000; adjusted for inflation, savings would be $1.4 billion.

One argument for terminating these programs is that federal funds should be directed toward activities whose benefits are national in scope, with state and local governments funding rural development. Moreover, studies completed by the General Accounting Office and the Center for Community Change found that two of the largest programs--the water and waste disposal program and the business and industry guaranteed loan program--are not well targeted toward low-income or distressed communities. Communities with higher incomes or lower unemployment (or both), the studies found, were more likely to receive assistance than communities with low incomes or higher unemployment.

Supporters of federal funding of rural development programs argue that, by sparking economic growth, the programs help to increase rural incomes. Eliminating these funding sources would probably reduce economic development activities because private credit simply may not be available in some areas and many fiscally distressed states and localities would be unable to offset the loss of federal grants and interest subsidies.

DOM-32 ELIMINATE THE ECONOMIC DEVELOPMENT ADMINISTRATION

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
From the 1995 Funding Level						
Budget Authority	440	440	440	440	440	2,200
Outlays	41	126	240	330	419	1,156
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority	455	471	488	505	522	2,441
Outlays	43	132	255	356	462	1,248

The Economic Development Administration (EDA), an agency within the Commerce Department, provides grants to state and local governments for public works, technical assistance, defense conversion activities, and job programs, as well as loan guarantees to firms for business development. For 1995, appropriations for EDA programs total $440 million. Disbanding the EDA would reduce federal outlays by about $41 million in 1996 and $1.2 billion over the 1996-2000 period measured against the 1995 funding level. Measured against the 1995 level adjusted for inflation, savings would be $43 million in 1996 and $1.2 billion over the five-year period.

One criticism of EDA programs is that federal assistance should not be provided for activities whose benefits are primarily local and which therefore should be the responsibility of state and local governments. In addition, EDA programs have been criticized for substituting federal credit for private credit and for facilitating the relocation of businesses from one distressed area to another through competition among communities for federal funds. The EDA has also been criticized for its broad eligibility criteria, which allow areas containing 80 percent of the U.S. population to compete for benefits, and for providing aid with little proven effect compared with other programs having similar goals. Furthermore, because of the competitive nature of EDA programs, local governments do not incorporate this type of aid into their budget plans; hence, eliminating future EDA funding would not impose unexpected hardships on communities.

Some of the reduction in aid associated with this option would, however, curtail economic development activities in financially distressed communities that have no other available resources. That cutback could result in the deterioration of infrastructure, the loss of prospective jobs, and decreases in local tax receipts in those areas.

DOM-33 ELIMINATE THE APPALACHIAN REGIONAL COMMISSION

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
From the 1995 Funding Level						
Budget Authority	282	282	282	282	282	1,410
Outlays	14	85	169	219	254	741
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority	291	301	312	323	334	1,561
Outlays	15	88	178	236	280	797

The federal government provides annual funding to the Appalachian Regional Commission (ARC) for activities that promote economic growth in the Appalachian counties of 13 states. For 1995, the Congress appropriated $282 million for the ARC. The states are responsible for filing development plans and for recommending specific projects for federal funding. The commission distributes the funds competitively, based on such factors as the area's growth potential, per capita income, and rate of unemployment; the financial resources of the state and locality; the prospective long-term effectiveness of the project; and the degree of private-sector involvement.

The ARC supports a variety of programs, including the Appalachian Development Highway System, to open up areas with development potential; the Community Development Program, primarily to create jobs; the Human Development Program, to improve rural education and health; and the Research and Local Development District Programs, to provide planning and technical assistance to multicounty organizations. Federal funds also support 50 percent of the salaries and expenses of the ARC staff. Discontinuing the programs funded through the ARC would reduce federal outlays by $14 million in 1996 and by $741 million over the 1996-2000 period measured from the 1995 funding level. Measured from the 1995 level adjusted for inflation, savings would be $15 million in 1996 and $797 million over the five-year period.

Those in favor of termination argue that the programs supported by the ARC duplicate activities funded by other federal agencies, such as the Department of Transportation's federal highways program and the Department of Housing and Urban Development's Community Development Block Grant program. Critics of the ARC also contend that although it allocates resources to poor rural communities, those areas are no worse off than many others outside the Appalachian region and therefore no more deserving of special federal attention.

Nevertheless, eliminating federal funding of the ARC programs would reduce economic development activities in the region, because the fiscal distress of many states and localities would probably preclude their offsetting that loss of resources. Thus, fewer jobs might be created, and rural infrastructure, education, and health care conditions might suffer in this area of the country.

DOM-34 ELIMINATE OR RESTRICT COMMUNITY DEVELOPMENT BLOCK GRANTS

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
Eliminate the CDBG Program						
From the 1995 Funding Level						
Budget Authority	4,600	4,600	4,600	4,600	4,600	23,000
Outlays	184	2,024	3,864	4,508	4,600	15,180
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority	4,752	4,913	5,088	5,262	5,446	25,461
Outlays	190	2,097	4,069	4,876	5,141	16,373
Restrict Eligibility and Reduce Funding						
From the 1995 Funding Level						
Budget Authority	920	920	920	920	920	4,600
Outlays	37	405	773	902	920	3,037
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority	950	983	1,018	1,052	1,089	5,092
Outlays	38	419	814	975	1,028	3,274

The Community Development Block Grant (CDBG) program provides annual grants, by formula, to eligible metropolitan cities and urban counties through what is referred to as its entitlement component. Under the formula, jurisdictions with greater needs (as measured by factors such as population, poverty levels, and housing conditions) receive larger grants than those with lesser needs. The program also allocates funds, by formula, to each state. The latter funds are distributed among nonentitlement areas, typically through a competitive process. Nonentitlement areas generally are units of local government that have populations under 50,000 and that are not metropolitan cities or parts of urban counties.

Community Development Block Grants in general must be used to aid low- and moderate-income households, to eliminate slums and blight, or to meet emergency needs. In accomplishing those goals, they may be used for a wide range of community development activities, including rehabilitation of housing, improvement of infrastructure, and economic development. Funds from the entitlement component may also be used to repay principal and interest on obligations that are issued by local governments to finance certain activities--such as the acquisition or rehabilitation of public property--and that are guaranteed by the federal government under the Section 108 loan guarantee program.

For 1995, the appropriation for the CDBG program amounts to $4.6 billion. Of that total, $3.2 billion is allocated to metropolitan cities and urban counties and $1.3 billion goes to nonentitlement government units; the remainder is earmarked for specific purposes described in the appropriation act. Substantial federal savings could be realized either by terminating the CDBG program or by restricting eligibility for the entitlement component to exclude the least needy jurisdictions while reducing funding levels. Least needy jurisdictions could be defined by measuring relative economic well-being and fiscal